



STATE OF IDAHO TAX UPDATE

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This issue of *Tax Update* deals with Idaho's new sales tax rate and new tax laws. If you have questions about this material or if you need more information, contact the Idaho State Tax Commission.

SALES TAX REVERTS TO 5% IN JULY

Idaho's sales tax rate will return to 5% on July 1, 2005. This date marks the end of a two-year tax rate increase approved by the Idaho Legislature. Here are answers to questions retailers might have about how the change affects their business.

When do I begin charging the 5% rate? Charge the 5% rate on sales made on or after July 1. If your customer takes possession of the goods before July 1, charge the tax at the 6% rate and report it on the sales tax return for that month, even if you haven't yet collected the money from the transaction.

Are the same sales taxable at the 5% rate? Yes. The same types of sales that were taxable at the 6% rate will be taxable at the 5% rate.



What about use tax? Pay use tax at the 5% rate if the item is first used, consumed, or stored in Idaho on or after July 1, 2005. You owe use tax if sales tax was not paid when the item was purchased, and no exemption applies.

How can I prepare for the 5% rate? Change your cash register

to charge the 5% rate beginning July 1, or use the 5% bracket chart we are sending to all sales tax account holders to compute the correct amount of tax. Keep records that clearly show the month each sale takes place.

Will my sales tax returns show the 5% rate? Your returns will reflect the 5% rate starting in July. For annual filers who receive their returns in December, the returns will have two columns: one for sales made at the 6% rate before July 1, and another for sales made at the 5% rate on or after July 1.

What if I collect the sales tax at the 6% rate on or after July 1? If you are still collecting tax at the 6% rate after that date, you must refund the 1% difference to your customers. If you can't locate a customer, you must pay the difference to the Tax Commission.

Do exemption certificates (ST-101) need to be renewed? No. If the information on a certificate is correct, it will remain valid.

What about bracket charts for retailers who also collect the local option sales tax? If you collect a local option sales tax for Nez Perce or Kootenai County, we will send you a 5.5% (5% state, plus .5% county) bracket chart with your next local option sales tax return.

EMPLOYERS CAN GET TAX BENEFITS

A law passed by the Idaho Legislature gives tax benefits to employers who bring new jobs to Idaho. Under the Small Employer Incentive Act (House Bill 323a), employers must create at least 10 new administrative jobs that provide benefits and pay at least \$40,000 annually, and invest at least \$50,000 per new employee in a new administrative facility within a 5-year period starting on January 1, 2005. Also, the majority of the taxpayer's

administrative services must be handled at the facility.

The Act provides qualifying employers an additional .75% investment tax credit for a total credit of 3.75%, a 2.5% real property improvement income tax credit, an increased new jobs credit for increased wages, and sales tax rebates for 25% of all sales and use taxes paid for headquarters and administrative facilities constructed, located, or

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CIGARETTE TAX HIKE STAYS

The tax on a pack of 20 cigarettes will remain 57 cents in Idaho under a new law (House Bill 386a) that makes the current

cigarette tax rate permanent as of July 1, 2005. The tax rate was scheduled to go back to 28 cents until the law was passed.

FEDERAL LAWS CREATE SALES TAX EXEMPTIONS

As of January 2003, a federal law (Title 33, Section 5b, United States Code) prohibited Idaho from taxing activities that occur on navigable waters in Idaho. These activities include river rafting trips and lake cruises. Businesses selling these kinds of services are not required to collect sales tax from their customers.

This exemption doesn't apply to the selling and leasing of boats. Also, the exemption doesn't apply to sales of tangible personal property. When a business operating on navigable waters keeps an inventory of gear (such as ground sheets, sleeping bags, boots, rain gear, fishing equipment, and dry bags) exclusively for rental to clients, it can buy the gear without paying tax only if the equipment is listed as a separate line item on the client's invoice, and sales tax is charged to the client. If a business provides gear to clients as a part of a package fee, the business must pay tax when it buys the gear. It will not charge sales tax on the rental (see Idaho Sales Tax Rule 047.11.c). Meals and beverages provided by a business operating on navigable waters are not subject to sales tax unless the items are separately stated on the invoice.

Also, Idaho can no longer charge sales tax for flying services such as recreational flights and

intrastate charters due to another law passed by Congress (Title 49, Section 40116, United States Code). Recreational flights include balloon rides, sightseeing, wildlife viewing, and similar activities. Intrastate charters occur when someone hires an aircraft with a pilot to transport passengers or freight, and the flight begins and ends in Idaho.

To apply for a refund of sales tax paid in error, businesses must first reimburse the tax to their customers. They can then apply to the Tax Commission for a rebate using Form TCR Sales Tax Refund Claim (available on our Web site at tax.idaho.gov/forms_misc.htm) and send it with their sales tax return. They must apply for the refund within three years of the date they paid the tax to the Tax Commission and provide proof that they reimbursed their customers.

Customers who can't get a refund from the retailer may apply directly to the Tax Commission.

Unless otherwise noted, information in *Tax Update* applies only to Idaho taxes. This newsletter is designed to provide general information only, and is not intended to offer comprehensive explanations of Idaho tax laws and rules. Send comments about *Tax Update* to:

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FOR MORE INFORMATION

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installed within the project site in a 5-year period starting on January 1, 2005. The law also allows local county commissioners to grant a property tax exemption on all or part of the employer's new property investment.

Administrative jobs may include accounting, data processing, information technology, payroll, personnel, purchasing, tax, and treasury. A facility includes office equipment, parking lots, and computers. Real property improvements include improvements to buildings, structural components, and parking lots.